

COUNTY OF SAN BERNARDINO
CALIFORNIA
SPECIAL DISTRICTS
AUDIT REPORT
COUNTY FLOOD CONTROL DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Prepared by:

Internal Audits Section
Office of the Auditor/Controller-Recorder

November 22, 2006
(except for note 18, as to which
the date is December 20, 2006)

**County of San Bernardino Special Districts
Flood Control District**

Table of Contents

	Page
Independent Auditor's Report	1-2
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets (balance sheet presentation)	3
Statement of Activities	4
Fund Financial Statements	
<i>Governmental Funds</i>	
Balance Sheet	5
Reconciliation of Governmental Balance Sheet to Balance Sheet	6
Statement of Revenues, Expenditures, and Changes in Fund Balance	7
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	8
<i>Proprietary Funds</i>	
Balance Sheet	9
Statement of Revenues, Expenses, and Changes in Fund Net Assets	10
Statement of Cash Flows	11
<i>Fiduciary Funds</i>	
Statement of Fiduciary Net Assets	12
Notes to the Financial Statements	13-35
Required Supplementary Information	
Budgetary Comparison Schedule Governmental Funds-Schedule One.....	36
Supplementary Information	
Combining Balance Sheet (Zones 1-6, LADP and NPDES)-Schedule Two	37
Combining Statement of Revenues, Expenditures and Changes in Fund Balance (Zones 1-6, LADP and NPDES) - Schedule Three.....	38

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Auditor/Controller-Recorder
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Assistant Auditor/Controller-Recorder
Assistant County Clerk

Independent Auditor's Report

November 22, 2006

(except for note 18, as to which the date is December 20, 2006)

Vana Olson, Director
Department of Public Works
825 East Third Street
San Bernardino, CA 92415-0835

**SUBJECT: AUDIT OF SAN BERNARDINO COUNTY FLOOD CONTROL
DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of the Flood Control District for the fiscal year ended June 30, 2006.

Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the remaining aggregate fund information of the County of San Bernardino Flood Control District (District), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2006, which collectively comprise the Special District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles

AudRpt/Vana Olson, Director

Department of Public Works

November 22, 2006 (except for note 18, as to which the date is December 20, 2006)

Page 2

used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the remaining aggregate fund information of the District, as of June 30, 2006, and the respective changes in financial position and cash flows thereof for the year ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

On November 28, 2006, the County of San Bernardino entered into a litigation settlement of \$102,000,000. The subsequent settlement is disclosed in the notes to the financial statements as a subsequent event at Note 18. It is recorded as a liability in the governmental activities' balance sheet and as a special item expense in the governmental activities' statement of activities.

The accompanying budgetary comparison information on page 34 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The District has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Respectfully submitted,

Larry Walker

Auditor/Controller-Recorder

By:

Howard M. Ochi, CPA
Chief Deputy Auditor

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Date Report Distributed: 2/6/07

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**County of San Bernardino
Flood Control District
Balance Sheet
June 30, 2006**

	<u>Governmental Activities Flood Control</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 77,706,597
Cash with fiscal agent	42,144
Restricted cash	173,830
Customer deposits	60,000
Interest receivable	718,891
Taxes receivable	2,084,401
Due from other governments	958,160
Total current assets	<u>81,744,023</u>
Noncurrent assets:	
Accounts receivable	3,272,102
Capital assets:	
Land	153,582
Structures	653,487
Construction in progress	51,098,077
Infrastructure	335,090,083
Equipment and vehicles	11,452,381
Less accumulated depreciation	<u>(177,867,767)</u>
Total noncurrent assets	<u>223,851,945</u>
Total assets	<u><u>\$ 305,595,968</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 3,526,580
Salaries and benefits payable	847,953
Retention payable	216,827
Due to other governments	1,337,944
Capital leases - current portion	42,232
Deferred revenue	70,519
Loans payable - current portion	846,315
Customer deposits	196,420
Special item-litigation settlement payable - current portion (note 18)	<u>22,000,000</u>
Total current liabilities	<u>29,084,790</u>
Noncurrent liabilities:	
Capital leases	36,808
Employee compensated absences	1,539,790
Loans payable	24,379,516
Special item-litigation settlement payable (note 18)	<u>80,000,000</u>
	<u>105,956,114</u>
Total liabilities	<u><u>135,040,904</u></u>
NET ASSETS	
Invested in capital assets, net of related debt	195,274,972
Restricted assets	173,830
Unrestricted	<u>(24,893,738)</u>
Total net assets	<u>170,555,064</u>
Total liabilities and net assets	<u><u>\$ 305,595,968</u></u>

The notes to the financial statements are an integral part of this statement.

County of San Bernardino
Flood Control District
Statement of Activities
For the Fiscal Year ended June 30, 2006

	Governmental Activities <u>Flood Control</u>
EXPENSES	
Salaries and benefits	\$ 11,913,994
Services and supplies	20,328,014
Depreciation	7,744,890
Interest	78,310
Total expenses	<u>40,065,208</u>
PROGRAM REVENUES	
Operating grants and contributions	33,328,656
Charges for services	3,475,595
Total program revenues	<u>36,804,251</u>
Net program revenue (expense)	<u>(3,260,957)</u>
GENERAL REVENUES	
Property taxes	26,293,950
Other taxes	2,492,007
Interest	2,408,530
Rents, concessions and royalties	1,905,563
Gain on sale of capital assets	414,968
Other revenues	1,043,501
SPECIAL ITEM-LITIGATION SETTLEMENT (note 18)	<u>(102,000,000)</u>
Total general revenues	<u>(67,441,481)</u>
Change in net assets	(70,702,438)
Net assets - beginning	<u>241,257,502</u>
Net assets - ending	<u><u>\$ 170,555,064</u></u>

The notes to the financial statements are an integral part of this statement.

County of San Bernardino
Flood Control District
Balance Sheet
Governmental Funds
June 30, 2006

	Governmental Funds
	<u>Flood Control</u>
ASSETS	
Cash and cash equivalents	\$ 75,947,053
Cash with fiscal agent	42,144
Restricted cash	173,830
Customer deposits	60,000
Interest receivable	702,658
Taxes receivable	2,084,401
Due from other funds	49,582
Due from other governments	946,386
Total assets	<u>\$ 80,006,054</u>
 LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ 3,505,336
Salaries and benefits payable	845,485
Retention payable	216,827
Due to other funds	124,611
Due to other governments	1,320,898
Deferred revenue	70,519
Customer deposits	196,420
Total liabilities	<u>6,280,096</u>
 Fund Balances:	
Reserved for encumbrances	10,716,952
Unreserved	63,009,006
Total fund balances	<u>73,725,958</u>
 Total liabilities and fund balances	<u>\$ 80,006,054</u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Flood Control District
Reconciliation of Governmental Balance Sheet
To Balance Sheet
Governmental Funds
For the Fiscal Year Ended June 30, 2006**

Fund balance	\$ 73,725,958
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Amounts reported for *governmental activities* in the Statement of Net Assets are different because:

Internal Service Fund's working capital is combined into the Government-wide statement of net assets for reporting purposes.	1,821,822
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Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund financial statements.	220,579,843
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Some current and long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental's Fund Balance Sheet (note 8).	(26,844,661)
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Special item - litigation settlement	(102,000,000)
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Long-term receivables related to capital assets are not receivable in the current period and are not reported in the Governmental Fund's Balance Sheet.	3,272,102
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Net assets of governmental activities	<u>\$ 170,555,064</u>
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**County of San Bernardino
Flood Control District
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2006**

	<u>Governmental Funds Flood Control</u>
REVENUES	
Property taxes	\$ 26,293,950
Other taxes	2,492,007
Interest	2,353,892
Government aid and grants	34,013,808
Rents, concessions and royalties	1,905,563
Other revenues	1,053,767
Total revenues	<u>68,112,987</u>
EXPENDITURES	
Salaries and benefits	11,880,978
Services and supplies	18,737,095
Debt service - principal	681,315
Debt service - interest	77,222
Capital outlay	18,949,009
Total expenditures	<u>50,325,619</u>
Excess (deficiency) of revenues over (under) expenditures	17,787,368
OTHER FINANCING SOURCES	
Sale of capital assets	<u>218,560</u>
Total other financing sources	<u>218,560</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures	18,005,928
Fund balance - beginning	<u>55,720,030</u>
Fund balance - ending	<u><u>\$ 73,725,958</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Flood Control District
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
For the Fiscal Year Ended June 30, 2006**

Net change in fund balances-total governmental funds \$ 18,005,928

Amounts reported for governmental activities in the statement of activities are different because:

Internal Service Fund's net change in fund balance is "rolled into" the governmental fund's fund balance for reporting purposes on the Government-wide statement of activities. This is the amount by which the internal service fund's net assets decreased. 559,337

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period. 12,541,514

Various projects that were capitalized as Construction in Progress in prior years result in a capital asset and are recorded as expenses in the current year. These expenses do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. 173,944

In the statement of activities, only the gain on the sale of fixed assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the fixed assets sold. 16,698

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items. (3,837)

Special item - litigation settlement (102,000,000)

Some expenses (i.e. employee compensated absences increase) reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. 3,978

Change in net assets of governmental activities \$ (70,702,438)

County of San Bernardino
Flood Control District
Balance Sheet
Proprietary Funds
June 30, 2006

	Internal Service Fund <u>Equipment Rental</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 1,759,544
Interest receivable	16,233
Due from other funds	124,611
Due from other governments	11,774
Total current assets	<u>1,912,162</u>
Noncurrent assets:	
Capital assets:	
Equipment and vehicles	11,208,973
Less accumulated depreciation	<u>(5,862,396)</u>
Total noncurrent assets	5,346,577
Total assets	<u><u>\$ 7,258,739</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 21,244
Salaries and benefits payable	2,468
Due to other funds	49,582
Due to other governments	17,046
Capital leases current	2,836
Total liabilities	<u>93,176</u>
NET ASSETS	
Invested in capital assets, net of related debt	5,343,741
Unrestricted	<u>1,821,822</u>
Total net assets	7,165,563
Total liabilities and net assets	<u><u>\$ 7,258,739</u></u>

The notes to the financial statements are an integral part of this statement.

County of San Bernardino
Flood Control District
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2006

	Internal Service Fund <u>Equipment Rental</u>
OPERATING REVENUES	
Charges for services	\$ 3,475,595
Total operating revenues	<u>3,475,595</u>
OPERATING EXPENSES	
Salaries and benefits	36,994
Services and supplies	1,764,863
Depreciation	1,337,395
Total operating expenses	<u>3,139,252</u>
Operating income (loss)	<u>336,343</u>
NONOPERATING REVENUES (EXPENSES)	
Interest	54,638
Gain on sale of capital assets	179,710
Interest expense	(1,088)
Other nonoperating revenue (expense)	<u>(10,266)</u>
Total nonoperating revenues (expenses)	<u>222,994</u>
Change in net assets	559,337
Net assets-beginning	<u>6,606,226</u>
Net assets-ending	<u>\$ 7,165,563</u>

The notes to the financial statements are an integral part of this statement.

County of San Bernardino
Flood Control District
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2006

	Internal Service Fund <u>Equipment Rental</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from Operating Activity	\$ 3,458,157
Cash payments to suppliers of goods and services	(1,726,573)
Cash payments to employees for services	(35,946)
Net cash provided (used) by operating activities	<u>1,695,638</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Change in Due from Other Fund	(124,611)
Change in Due to Other Fund	49,582
Other revenue	179,710
Other non operating expense	(10,266)
Net cash provided (used) by noncapital financing activities	<u>94,415</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of fixed assets	(2,013,209)
Interest paid on bonds and notes	(1,088)
Net cash provided (used) by capital and related financing activities	<u>(2,014,297)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest revenue	<u>54,638</u>
Net cash provided by investing activities	<u>54,638</u>
Net increase (decrease) in cash and cash equivalents	(169,606)
Balance -- beginning of the year	<u>1,929,150</u>
Balance -- end of the year	<u>\$ 1,759,544</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ 336,343
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	1,337,395
Change in assets and liabilities:	
Receivables, net	(17,438)
Accounts and other payables	39,338
Net cash provided by operating activities	<u>\$ 1,695,638</u>

The notes to the financial statements are an integral part of this statement.

County of San Bernardino
Flood Control District
Statement of Fiduciary Net Assets
Agency Fund
June 30, 2006

	<u>The California Storm Water Best Management Practice Fund</u>
ASSETS	
Cash and cash equivalents	\$ 1,245
Total current assets	<u>\$ 1,245</u>
 LIABILITIES	
Due to bondholders	\$ 1,245
Total liabilities	<u>\$ 1,245</u>

The notes to the financial statements are an integral part of this statement.

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2006**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The County Flood Control District (District) is a special district located within the County of San Bernardino. The District has governmental powers as established by the San Bernardino County Government Charter (County). The County was established in 1852 as a legal subdivision of the State of California.

The District was established under Chapter 73 of the 1939 Statutes for the State of California. The District's powers are exercised through the Board of Supervisors (Board), which is the governing body for the County. The District maintains and constructs flood control channels, basins, storm drains and dams in six geographical zones within San Bernardino County. The District also works with the neighboring counties of Los Angeles, Riverside and Orange to maintain flood control systems and clean up after disasters.

The governmental reporting entity consists of the six flood control zones, administration, the internal service fund (equipment rental) and their related groups of funds. The District is a component unit of the County. Component units are legally separate organizations for which the Board is financially accountable or other organizations whose nature and significant relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and (i) either the County's ability to impose its will on the organization or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the County.

The accompanying financial statements reflect only the accounts of the District and are not intended to present the financial position of the County taken as a whole.

The District's six zones, administration and the internal service fund have combined resources within the County to form an integrated flood drainage and water conservation system in the incorporated and unincorporated areas of the County. The six flood control zones are as follows:

Zone	Geographical Areas (Description)
1	The westerly portion of the San Bernardino Valley extending from Beech Avenue in the Fontana area to the Los Angeles County line, all south of the San Gabriel mountain range divide. This embraces the cities or communities of Upland, Montclair, Ontario, Chino, Alta Loma, Rancho Cucamonga, Etiwanda and Guasti. (277 square miles).

County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2006

NOTE 1– SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Reporting Entity – *Continued*

Zone	Geographical Areas (Description)
2	The central areas of the San Bernardino Valley east of Zone 1 to approximately the Santa Ana River and City Creek demarcations. This includes the cities of Fontana, Rialto, San Bernardino, Colton and Grand Terrace, together with the communities of Devore, Muscoy, Del Rosa, and Bloomington. (315 square miles).
3	The east end of the San Bernardino Valley east from Zone 2 including the cities and communities of Redlands, Highland, East Highland, Mentone, Yucaipa and Loma Linda. (393 square miles).
4	The Mojave River Valley from the San Bernardino mountains to Silver Lake including the cities and communities of Barstow, Hesperia, Apple Valley, Victorville, Oro Grande, Helendale, Hodge, Hinkley, Yermo and Daggett. (1,129 square miles).
5	The mountainous watershed of the Mojave River on the crest and north slopes of the San Bernardino mountains including the communities of Crestline, Lake Gregory, Lake Arrowhead, Running Springs and Green Valley Lake. (175 square miles).
6	The remainder of the County not embraced by other zones including portions of the San Gabriel and San Bernardino mountains and the semi-desert portion of the County. This embraces the cities and communities of Needles, Trona, Adelanto, Phelan, Lucerne Valley, Amboy and the Twenty-nine Palms-Morongo Valley districts. (17,900 square miles).

The District also has three Local Area Drainage Plans (LADP) and the National Pollution Discharge Elimination System Program (NPDES), which are reported with the Zones.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the Balance Sheet and the Statement of Activities) report information on all of the nonfiduciary activities of the reporting entity. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2006

NOTE 1– SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Government-wide and fund financial statements - *Continued*

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues and interest to be available if they are collected within 60 days of the end of the current fiscal period. However, for revenue derived from voluntary non-exchange transactions, such as taxes and federal and state grants, the County expanded its definition of “available” to nine months.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual

County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2006

NOTE 1– SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Measurement focus, basis of accounting, and financial statement presentation - *Continued*

as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *special revenues funds* used in Zones 1-6, LADP and NPDES are the government's primary operating funds. The funds account for all financial resources of the general government, except those required to be accounted for in another fund.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to these same limitations. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenue of the Flood Control District is charges to customers for equipment rental. Operating expenses for the proprietary fund include the cost of salaries and benefits, services and supplies, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as no-operating revenues and expenses.

The government reports the following major proprietary funds:

The *internal service fund* labeled "Equipment Rental" accounts for the activities of renting the vehicles and equipment to the six zones in Flood Control and the County Department of Transportation.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first and then unrestricted resources, as they are needed.

Agency funds are used to account for assets held by the District as an agent for individuals, private organizations, other governments and/or other funds. The funds are custodial in nature (assets equal liabilities) and do not involve measurement of the

County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2006

NOTE 1– SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Measurement focus, basis of accounting, and financial statement presentation - *Continued*

results of operations. The modified accrual basis of accounting is used for the agency funds. Flood Control's *agency fund* labeled "The California Storm Water Best Management Fund" is used to pay for costs associated with the update and revision of the State Best Management Practices Handbooks.

Cash and Cash Equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Cash and cash equivalents include the cash balances of substantially all funds, which are pooled and invested by the County Treasurer to increase interest earnings through investment activities.

Investment activities are governed by the California Government Code Sections 53601, 53635, and 53638 and the County's Investment Policy. Authorized investments include U. S. Government Treasury and Agency securities, bankers' acceptances, commercial paper, medium term notes, mutual funds, repurchase agreements, and reverse repurchase agreements.

Interest income, and realized gains and losses earned on pooled investments are deposited quarterly to the District's accounts based upon the District's average daily deposit balances during the quarter. Unrealized gains and losses of the pooled investments are distributed to the District annually. Cash and cash equivalents are shown at fair value as of June 30, 2006.

Receivables

All accounts receivable are shown net of an allowance from uncollectibles when applicable. There are no accounts receivables as of June 30, 2006.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2006

NOTE 1– SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Capital assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g. dams, channels, drainage systems), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land, structures and equipment and vehicles) and have an estimated useful life in excess of one (1) year. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Infrastructure, buildings, equipment, and vehicles are depreciated using the straight-line method or the productive hours method over the following estimated useful lives:

	<u>Estimated Useful Lives</u>
Basins, storm drains, channels, dams	50 to 99 years
Vehicles, governmental funds	6 years
Equipment, governmental funds	6 to 15 years
Buildings, structures	45 years
Internal Service Fund (Proprietary)	
Equipment and vehicles	productive hours

Employee compensated absences

Accumulated vacation, holiday benefits, sick pay and compensatory time are recorded as an expense and liability as the benefits are earned. Compensated absence liabilities are recorded as a noncurrent liability. In the event of retirement or termination, an employee is paid 100% of accumulated vacation pay, and those with ten or more years of continuous services are paid 30% to 50% of their accumulated sick leave.

County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2006

NOTE 1– SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

Employee compensated absences - *Continued*

Compensated absences activity for the year ended June 30, 2006 was as follows:

<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
\$ 1,543,768	\$ 982,821	\$ 986,799	\$ 1,539,790

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reconciliation of government-wide and fund financial statements

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide Statement of Activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of the differences of \$12,541,514 are as follows:

Capital outlay	\$ 18,949,009
Depreciation expense	<u>(6,407,495)</u>
Change in net assets of governmental activities	<u>\$ 12,541,514</u>

County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2006

NOTE 1– SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 – 29143 of the Government code of the State of California, commonly know as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for capital assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

NOTE 2 – RESTRICTED CASH

Restricted cash consists of deposits received by the District from the Bureau of Reclamation for the Etiwanda / San Sevaine construction project that, per the loan agreement, are restricted for this project.

NOTE 3 – LOANS RECEIVABLE

Loans Receivable consists of a repayment agreement between Flood Control and the City of Rancho Cucamonga Redevelopment Agency regarding the Bureau of Reclamation Day Creek Loan. (See Note 7).

NOTE 4– CAPITAL ASSETS

The cost of building and acquiring capital assets (land, buildings, dams, channels, storm drains, vehicles and equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the balance

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2006**

NOTE 4 – CAPITAL ASSETS - Continued

sheet. However, the statement of net assets includes those capital assets among the assets of County Flood Control as a whole, and their original costs are expensed annually over their useful lives. For the Internal Service Fund (ICA), capital assets are recorded at historical cost or at estimated historical cost if actual cost is not available. During the year of acquisition the capital assets are capitalized in the Internal Service Fund and are depreciated over their productive hours estimated life. Depreciation Expense is recorded annually in the Internal Service Fund. Capital assets for the governmental type activities are as follows:

	Balance July 1, 2005	Increases	Decreases	Ending Balance June 30, 2006
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ -	\$ 153,582	\$ -	\$ 153,582
Construction in progress	32,572,002	18,594,861	(68,786)	51,098,077
Total capital assets, not being depreciated	32,572,002	18,748,443	(68,786)	51,251,659
<i>Capital assets, being depreciated:</i>				
Buildings	425,843	227,644	-	653,487
Channels, drains, dams, basins	334,916,139	173,944	-	335,090,083
Equipment	276,875	-	(33,467)	243,408
Total capital assets being depreciated	335,618,857	401,588	(33,467)	335,986,978
Less accumulated depreciation for:				
Buildings	(289,295)	(13,352)	-	(302,647)
Channels, drains, dams, basins	(165,221,220)	(6,340,217)	-	(171,561,437)
Equipment	(137,526)	(37,515)	33,754	(141,287)
Total accumulated depreciation	(165,648,041)	(6,391,084)	33,754	(172,005,371)
Total capital assets being depreciated, net	169,970,816	(5,989,496)	287	163,981,607
Total	\$ 202,542,818	\$ 12,758,947	\$ (68,499)	\$ 215,233,266
Internal Service Fund				
<i>Capital assets, being depreciated:</i>				
Vehicles	\$ 9,916,585	\$ 2,200,087	\$ (945,033)	\$ 11,171,639
Equipment	101,317	-	(63,983)	37,334
Total capital assets, being depreciated	10,017,902	2,200,087	(1,009,016)	11,208,973
Less accumulated depreciation for:				
Vehicles	(5,303,428)	(1,347,989)	789,021	(5,862,396)
Equipment	(10,594)	(5,528)	16,122	-
Total accumulated depreciation	(5,314,022)	(1,353,517)	805,143	(5,862,396)
Total	4,703,880	846,570	(203,873)	5,346,577
Governmental activities capital assets, net	\$ 207,246,698	\$ 13,605,517	\$ (272,372)	\$ 220,579,843

County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2006

NOTE 4 – CAPITAL ASSETS - Continued

At June 30, 2006 the District had \$ 51,098,077 in construction in progress for the following projects:

CONSTRUCTION IN PROGRESS

Zone	Description	Total CIP By Project	Totals By Zone
1	West State Street Drain	\$13,794,901	
1	English Canyon	18,350	
1	West Fontana Channel	496,975	
1	Sultana/Cypress Storm Drain (phase 2)	545,172	
1	County Line Channel (storm drain)	2,456,158	
1	County Line Channel	1,665	
1	County Line Channel	1,815	
1	Sultana Interceptor (phase 2)	203,906	
1	San Antonio Storm Drain	1,862	
1	San Antonio Storm Drain	163,830	
1	24th Street Storm Drain	2,125	
1	San Sevaine System	97,552	
1	SPPL Relocation	440,633	
1	San Sevaine Channel IIID - Jurupa to Valley	1,147,232	
1	Etiwanda Levees	10,214,949	
1	San Sevaine RCB at Foothill	44,567	
1	Victoria Basin	19,130	
1	Etiwanda Creek - Design & Construction	6,471,082	\$36,121,904
2	Cactus Basin #1 to Bloomington	436,419	
2	Rialto Channel Phase 2	155,874	
2	Rialto Channel Phase 3	4,529	
2	Randall Basin	90,921	
2	Rialto Channel	3,553	
2	Del Rosa Channel	140,794	
2	Del Rosa Channel I	319	
2	Cactus Basin # 3	550,737	
2	Cactus Basin # 4	51,351	
2	Cacuts Basin # 5	46,400	
2	Rialto Channel (Ultimate Channel Design)	1,399,726	
2	West Fontana Channel	38,962	
2	Waterman Creek Bank Repair	290,343	
2	East Rialto Storm Drain	4,475	
2	Lytle Cajon Channel	127,872	
2	Sand Creek/Warm Creek	101,452	3,443,727

County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2006

NOTE 4 – CAPITAL ASSETS – *Continued*

CONSTRUCTION IN PROGRESS (continued)

Zone	Description	Total CIP By Project	Totals By Zone
3	Elder Creek Channel	46,360	46,360
3	San Timeteo Channel	2,625,836	
3	San Timeteo Channel, Phase 3B	6,415,609	9,041,445
4	Oro Grande Wash Detention Basin	7,172	
4	Mojave River at I-15	1,405,502	
4	Hesperia Detention Basin	69,481	
4	Hesperia MPD	28,671	
4	Desert Knolls Wash	396,447	
4	Desert Knolls Wash I	157	
4	Desert Knolls Wash II	61,684	
4	Mojave River Channel	87,753	
4	Mojave River Levee Phase 2	84,928	
4	Antelope Creek Wash	66,686	
4	ChoiceanaOutlet @ Mojave River	9,992	
4	Hesperia Basin	722	
4	Adelanto Line E-01	1,178	
4	Kitchen Wash	12,491	
4	Kitchen Wash	31,582	2,264,446
5	Rim Forest Drainage	122	
5	Cumberland Drain	336	
6	Houston Creek	147,547	148,005
6	Donnell Basin	31,743	
6	Sheep Creek	447	32,190
	Totals Zones 1-6, LADP, NPDES	<u>\$51,098,077</u>	<u>\$51,098,077</u>

County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2006

NOTE 4 – CAPITAL ASSETS - *Continued*

The District has active major construction projects as of June 30, 2006. The projects are financed by government aid and property taxes and include new construction and renovations of dams, channels, basins and storm drains. At year-end the government's commitments with contractors are as follows:

Job Number	Project	Remaining Commitment
F01566	Sultana/Cypress Storm Drain	\$ 29,494
F01087	West State Street Storm Drain	132,675
F01573	Riverside Drive Storm Drain	6,561,452
F02105	San Antonio Storm Drain	23,350
F01577	County Line Channel (Storm Drain)	875,000
F01312	English Canyon	433,208
F01502	Etiwanda Levees	21,291,976
F01363	SS Channel IIID-Jurupa to Valley	112,620
F01744	Etiwanda Creek-Design & Construction	6,202,319
F01333	San Sevaine System	145,780
F01545	Randall Basin	5,800
F01666	Cactus Basin #3	72,000
F01669	Rialto Channel	505,642
F01272	Cactus Basin #1 to Bloomington	328,712
F01760	Adelanto Line E-01	350,000
F01152	San Timeteo Channel	150,000
F01510	San Timeteo Channel, Phase 3B	16,900
F01582	Desert Knolls Wash	86,827
F01389	Mojave River	1,297,624
Total		\$ 38,621,379

County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2006

NOTE 5 – CAPITAL LEASES PAYABLE

County Flood Control is leasing computer equipment, which is recorded in the Governmental funds, and six pick-up trucks, which is recorded in the Equipment fund. The District will acquire all rights and titles to the equipment and vehicles after the final lease payments are made.

The following is a schedule by year of future minimum lease payments as of June 30, 2006:

Year End June 30,	Governmental Activities	Internal Service Fund Equipment Rental	Total
2007	\$ 41,072	\$ 2,850	\$ 43,922
2008	37,339	-	37,339
Total minimum payments	\$ 78,411	\$ 2,850	\$ 81,261
Less: amount representing interest	(2,207)	(14)	(2,221)
Present value of minimum lease payments	<u>\$ 76,204</u>	<u>\$ 2,836</u>	<u>\$ 79,040</u>

NOTE 6 – DEFERRED REVENUE

Deferred revenue represents amounts for the Etiwanda / San Sevaine project held in outside bank accounts where revenue recognition has not yet occurred. Deferred revenue is \$70,519 at June 30, 2006.

NOTE 7– LOANS PAYABLE

Loans Payable consist of loans from the United States Department of the Interior, Bureau of Reclamation for \$15,788,729 for the Etiwanda / San Sevaine project and \$3,272,102 for the Day Creek project, the City of Loma Linda Redevelopment Agency for \$165,000, and the United States Army Corp of Engineers for \$6,000,000 for a grand total of \$25,225,831.

Flood Control entered into a loan agreement with the Bureau of Reclamation, for the construction of the Etiwanda / San Sevaine Creek Water Project. Amounts owed are determined annually until the project is completed (approximately 8 years) based on costs incurred but will not exceed \$20 million. After completion, the County has 15 years to pay back the liability along with 7% interest. The project was not completed as of June 30, 2006 and the final loan balance and repayment schedule for the \$15,788,729 has not been determined at this time.

County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2006

NOTE 7 – LOANS PAYABLE – *Continued*

Flood Control entered into a contract with the Bureau of Reclamation, for construction of the Day Creek Project. A subsequent agreement between Flood Control and the City of Rancho Cucamonga Redevelopment Agency (Agency) provides the terms and conditions for repayment of the Bureau of Reclamation loan. Payments are reflected in Zone 1 as cash contributions (from the Agency) and debt service-principal (to Bureau of Reclamation). This agreement is to be in force approximately 24 years or until the project is complete and the federal loan is repaid. Payments commenced in 1992 and the remaining balance of the loan as of June 30, 2006, is \$3,272,102 (See Note 3).

Flood Control entered into a contract to reimburse the City of Loma Linda Redevelopment Agency for the San Timeteo Creek Project. The County agreed to pay the City of Loma Linda Redevelopment Agency \$1,200,000 (interest free) over a four year period beginning in fiscal year ending June 30, 2002. There is still a remaining unpaid balance at June 30, 2006 of \$165,000, which will be paid off in the next fiscal year.

Flood Control entered into a loan agreement with the United States Army Corp of Engineers for the San Timeteo Creek Project. The County has agreed to pay back the loan and accrued interest upon completion of the project. (Interest is to be determined by the Secretary of the Treasury upon completion of the project.) This project was not completed as of June 30, 2006. The unpaid loan balance at June 30, 2006 was \$6,000,000.

The following is a schedule by year of future loan repayments as of June 30, 2006:

Year Ending June 30,	City of Loma Linda RDA San Timeteo Creek	Army Corps of Engineers San Timeteo	Dept. of Interior Bureau of Rec. San Sevaine	Dept. of Interior Bureau of Rec. Day Creek	Total
2007	\$ 165,000	\$ -	\$ -	\$ 681,315	\$ 846,315
2008	-	-	-	681,315	681,315
2009	-	-	-	681,315	681,315
2010	-	-	-	681,315	681,315
2011	-	-	-	546,842	546,842
2012-2017	-	6,000,000	15,788,729	-	21,788,729
	<u>\$ 165,000</u>	<u>\$6,000,000</u>	<u>\$15,788,729</u>	<u>\$ 3,272,102</u>	<u>\$ 25,225,831</u>

County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2006

NOTE 8 – LONG TERM OBLIGATIONS

A schedule of changes in long-term obligations of the District during fiscal year 2006 follows:

	Principal Outstanding June 30, 2005	Additions	Deletions	Principal Outstanding June 30, 2006	Amounts Due in One Year
Governmental Activities					
Capital Leases	\$ 117,912	\$ -	\$ 41,708	\$ 76,204	\$ 39,396
Compensated Absences	1,543,768	982,821	986,799	1,539,790	-
Loan-Bureau of Rec. San Sevaine	15,784,892	3,837	-	15,788,729	-
Loan-Bureau of Rec. Day Creek	3,953,417	-	681,315	3,272,102	681,315
Loan City of Loma Linda-Redevelopment	165,000	-	-	165,000	165,000
U.S. Army Corp of Engineers	6,000,000	-	-	6,000,000	-
Special item - Litigation Settlement Payable (note 18)	-	102,000,000	-	102,000,000	22,000,000
Total	<u>\$ 27,564,989</u>	<u>\$ 986,658</u>	<u>\$ 1,709,822</u>	<u>\$ 26,841,825</u>	<u>\$ 22,885,711</u>
Internal Service Fund					
Capital Leases	\$ 35,952	\$ -	\$ 33,116	\$ 2,836	\$ 2,836
Total	<u>35,952</u>	<u>-</u>	<u>33,116</u>	<u>2,836</u>	<u>2,836</u>
Total Governmental Activities	<u>\$ 27,600,941</u>	<u>\$ 986,658</u>	<u>\$ 1,742,938</u>	<u>\$ 26,844,661</u>	<u>\$ 22,888,547</u>

NOTE 9 – CUSTOMER DEPOSITS

Customer Deposits represent amounts held by the District on behalf of customers that are required to make deposits for various projects that require rights of way and easements and access to water for construction purposes.

County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2006

NOTE 10 – NET ASSETS

Net assets represent the difference between assets and liabilities. The net asset amounts were as follows:

	<u>Governmental Activities</u>	<u>Internal Service Fund Activities</u>	<u>Total Governmental Activities</u>
Invested in Capital Assets, Net of Related Debt: June 30, 2006			
Net structures, construction in progress, dams, channels, drainage systems, equipment and vehicles	\$ 215,233,266	\$ 5,346,577	\$ 220,579,843
Less: Loans payable on infrastructure and capital leases on vehicles and equipment	(25,302,035)	(2,836)	(25,304,871)
	189,931,231	5,343,741	195,274,972
Restricted for Etiwanda / San Sevaine project	173,830	-	173,830
Unrestricted	(26,640,531)	1,746,793	(24,893,738)
Total Net Assets	<u><u>\$ 163,464,530</u></u>	<u><u>\$ 7,090,534</u></u>	<u><u>\$ 170,555,064</u></u>

NOTE 11– RETENTIONS PAYABLE

The District retains 10% of construction contracts until contracts are completed and approved. Some contracts require that the retention be deposited into an escrow account. For all others, the final 10% payment is not made until the work is completed and approved. At June 30, 2006, the District's Retentions Payable balance was \$216,827, of which \$173,830 was on deposit with an external fiscal agent while Flood Control held \$42,997.

NOTE 12 – DUE TO OTHER GOVERNMENTS

At June 30, 2006, the \$958,160 balance is composed of the following: \$946,386 due to Orange County as reimbursement for their fronted share of cost of the Seven Oaks Dam Project; \$11,774 is for vehicle rentals, equipment usage, and direct labor costs rendered by other governments. The amount due for the Seven Oaks Dam project represents eminent domain deposits the courts placed with the District on behalf of the local county flood control district sponsors: the Counties of Riverside, San Bernardino and Orange.

This payment is the excess share of cost allocated to Orange County at the completion of the project. Riverside's share has been paid.

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2006**

NOTE 13 – RETIREMENT PLAN *(amounts reported in the thousands)*

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the Plan) operating under the California County Employees Retirement Act of 1937 (1937 Act). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the AQMD), were later included, along with the County of San Bernardino (the County), and are collectively referred to as the Participating Members. The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

Fiduciary Responsibility

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2006.

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.89% - 12.65% for general members and 10.85% - 14.77% for safety members, of their annual covered salary of which the County pays approximately 7%. County of San Bernardino employer contribution rates are as follow: County General 10.8%, County Safety 23.84%. All employers combined are required to contribute 13.01% of the current year covered payroll. For 2006, the County's annual pension cost of \$166,614 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2006

NOTE 13 – RETIREMENT PLAN *(amounts reported in the thousands)* – **Continued**

The County's annual pension cost and prepaid asset, computed in accordance with GASB 27, Accounting for Pensions by State and Local Governmental Employers, for the year ended June 30, 2006, were as follows:

Annual Required Contribution (County fiscal year basis) \$	166,614
Interest On Pension Assets	(34,207)
Adjustment To The Annual Required Contribution	40,156
Annual Pension Cost	172,563
Annual Contributions Made	166,614
Increase/(Decrease) in Pension Assets	(5,949)
Pension Asset, Beginning of Year	844,882
Pension Asset, End of Year	<u>\$ 838,933</u>

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

Year Ended June 30,	Annual Contributions Made		Percentage Contributed
	SBCERA	County	
2004	652,325	540,106	100%
2005	161,906	141,450	100%
2006	197,343	166,614	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266, in which San Bernardino County Flood Control District shares its respective allocation. Generally accepted actuarial principles and practices report this liability in total at the Plan Sponsor level. The current amount outstanding at June 30, 2006 is \$439,879.

On June 24, 2004, the County issued its County of San Bernardino Pension Obligation Bonds, Series 2004 A (Fixed Rate Bonds), its County of San Bernardino Pension Obligation Bonds, Series 2004 B (Auction Rate Bonds), and its County of San

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2006**

NOTE 13 – RETIREMENT PLAN *(amounts reported in the thousands)* – **Continued**

Bernardino Pension Obligation Bonds, Series 2004 C (Index Bonds) in a respective aggregate principal amounts of \$189,070, \$149,825, and \$125,000. The Bonds were issued to finance the County's share of the unfunded accrued actuarial liability of the S.B.C.E.R.A. The current amount outstanding at June 30, 2006 is \$461,665.

NOTE 14 – PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIII B to the State Constitution, established limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2005-2006 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

NOTE 15 – SELF INSURANCE

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability, and workers' compensation claims. Public liability claims are self-insured for up to \$1 million per occurrence. Excess insurance coverage over the Self-Insured Retention (SIR) up to \$25 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority (EIA) Liability Program II. Workers' compensation claims are self-insured up to \$2 million per occurrence, and covered by CSAC EIA for up to \$10 million for employer's liability, and up to \$50 million for workers' compensation per occurrence. Property damage claims are insured on an occurrence basis over a \$25,000 deductible, and insured with CSAC EIA Property Program.

The County supplements its self-insurance for medical malpractice claims with CSAC EIA, which provides annual coverage on a claim made form basis with a SIR of \$1 million for each claim. Maximum coverage under the policy is \$11.5 million per claim with an additional \$10 million in limits provided by the CSAC EIA General Liability II Program.

All public officials and County employees are insured under a blanket Comprehensive Disappearance, Destruction, and Dishonesty policy covering County monies and securities, also with CSAC EIA with a \$100,000 deductible, and excess limits up to \$10 million per occurrence.

The activities related to such programs are accounted for in the Department except for unemployment insurance, and employee dental insurance, which are accounted for in the General Fund. The IBNR and IBNS liabilities stated on the Department's balance sheet are based upon the results of actuarial studies, and include amounts for allocated and unallocated loss adjustment expenses. The liabilities for these claims are reported

County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2006

NOTE 15 – SELF INSURANCE – *Continued*

using a discounted rate of 4.25%. It is the Department's practice to obtain actuarial studies on an annual basis.

The Department has a risk management investment program agreement with the Bank of New York to finance the self-insured general liability, automobile liability, workers' compensation, and medical malpractice programs. The Department's investment in the agreement totaled \$47.7 million at June 30, 2006.

The total claims liability of \$127.2 million reported at June 30, 2006 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements, and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2005 and 2006 were:

Fiscal Year	Beginning of Fiscal Year Liability (in thousands)	Current-Year Claims and Changes in Estimates (in thousands)	Claims Payments (in thousands)	Balance at Fiscal Year-End (in thousands)
2004-05	\$101,709	\$44,309	(\$30,304)	\$115,714
2005-06	\$115,714	\$46,926	(\$35,407)	\$127,233

NOTE 16 – TRANSFERS TO/FROM OTHER FUNDS

Interfund Transfers To/From transactions are used to reimburse an operating fund, and/or transfer cash between operating funds and capital project funds. When aggregating data for the government wide Statement of Net Assets and the Statement of Activities, amounts between Internal Service Funds and Governmental Funds reported as interfund activity and balances in the fund financial statements are eliminated. For the year ended June 30, 2006, the District had the following interfund activities:

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2006**

RFG	581F-INTERFUND TO RFL, R	\$ 240,760
RFG	582F-INTERFUND TO RFM	63,028
RFG	590F-SARM INTERFUND TRF	110,234
RFG	589F-SAN TIM INTERFUND	8,815
RFA	599F-FCD INTERFUND CONT	267,700
RFF	599F-FCD INTERFUND CONT	108,900
RFL	599F-FCD INTERFUND CONT	59,400
RFQ	599F-FCD INTERFUND CONT	75,700
RFT	599F-FCD INTERFUND CONT	6,500
RFV	599F-FCD INTERFUND CONT	23,200
RFA	782F-FCD INTERFUND CONT	267,700
RFF	782F-FCD INTERFUND CONT	108,900
RFQ	782F-FCD INTERFUND CONT	75,700
RFT	782F-FCD INTERFUND CONT	6,500
RFV	782F-FCD INTERFUND CONT	23,200
RFA	799F-INTERFUND TO RFZ	267,700
RFF	799F-INTERFUND TO RFZ	108,900
RFQ	799F-INTERFUND TO RFZ	75,700
RFT	799F-INTERFUND TO RFZ	6,500
RFV	799F-INTERFUND TO RFZ	23,200
RFL	581F-INTERFUND FR RFG	(163,949)
RFL	581F-INTERFUND FR RFG	(10,114)
RFL	581F-INTERFUND FR RFG	(11,923)
RFM	581F-INTERFUND FR RFG	(25,637)
RFM	581F-INTERFUND FR RFG	(8,187)
RFM	581F-INTERFUND FR RFG	(1,220)
RFM	581F-INTERFUND FR RFG	(19,731)
RFM	582F-INTERFUND FR RFG	(13,003)
RFM	582F-INTERFUND FR RFG	(50,024)
RFL	590F-SARM INTERFUND TRF	(78,583)
RFL	590F-SARM INTEFUND TRF	(5,128)
RFL	590F-SARM INTEFUND TRF	(4,908)
RFM	590F-SARM INTERFUND TRF	(12,675)
RFM	590F-SARM INTERFUND TRF	(832)
RFM	590F-SARM INTERFUND TRF	(4,201)
RFM	590F-SARM INTERFUND TRF	(3,907)
RFM	589F-SAN TIM INTERFUND	(7,004)
RFM	589F-SAN TIM INTERFUND	(1,811)
RFZ	599F-FCD INTERFUND CONT	(541,400)
RFZ	782F-FCD INTERFUND CONT	(482,000)
RFZ	799F-INTERFUND CONTR	(482,000)
		<u>\$ 0</u>

County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2006

NOTE 17– COMMITMENTS AND CONTINGENCIES

The County has been named as a defendant in numerous lawsuits and claims arising in the normal course of operations.

NOTE 18 – SUBSEQUENT EVENTS/SPECIAL ITEM *(amounts reported in the thousand)*

Litigation Settlement Payable

On November 28, 2006, the Board of Supervisors for the San Bernardino County Flood Control District (SBCFCD) approved an Agreement for Settlement and Mutual Release (Settlement) with Colonies Partners, L.P. (Colonies) regarding litigation arising out of the construction of a portion of the Interstate 210 Freeway extension and the resulting construction of a storm drain and a basin system. The total Monetary Consideration for this Settlement is \$102,000. In exchange, SBCFCD will resolve the litigation as well as receive title to Basins A and B, inclusive of drainage channels and related acreage of approximately 72 acres and other easements and right-of-ways, herein and after referred to as Real Property.

As required by the Settlement, SBCFCD paid Colonies \$22,000 on November 29, 2006. The remaining \$80,000 of the \$102,000 shall be due and payable to Colonies within 180 days of the Effective Date of the Settlement. Alternatively, upon request by SBCFCD within 180 days of the Effective Date of the Settlement, and upon adoption by the Governing Board (County Board of Supervisors) of SBCFCD of an ordinance or resolution containing the findings required by Government Code Section 970.6 (a)(1), Colonies shall stipulate that all or part of such remaining portion of the Settlement be paid in ten (10) equal annual installments together with interest at the rate of nine percent (9%) per annum on the unpaid balance from and after the Effective Date, due on each of the first ten (10) anniversaries of the Effective Date beginning in 2007. However it is the intent of SBCFCD to seek approval of an offering of judgment obligation bonds to generate funds to pay the entire Settlement, including recoupment of the \$22,000 already paid and the remaining \$80,000 amount due within the 180 days of the Effective Date of the Settlement.

The Settlement did not specifically identify an allocation between the amount for the resolution of the Colonies' damages claims asserted in the litigation and the value of the Real Property. There is continuing litigation between SBCFCD and other parties, which has the potential to affect the ultimate allocation between the amount for the resolution of the litigation and for the Real Property. As such, due to the uncertainty of the valuation of the Real Property as of the Effective Date of the Settlement, the entire Monetary Consideration amount of \$102,000 has been recorded as a liability at June 30, 2006. In accordance with Interpretation No. 6 of the Government Accounting Standards Board *Recognition and Measurement of Certain Liabilities and Expenditures*

County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2006

NOTE 18 – SUBSEQUENT EVENTS/SPECIAL ITEM *(amounts reported in the thousand)*

Litigation Settlement Payable - Continued

in Government Fund Financial Statements, no liability has been recorded in SBCFCD's fund financial statements. However, as required by Statement No.10 of the Government Accounting Standards Board *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, and Statement No. 5 of the Financial Accounting Standards Board *Accounting for Contingencies*, the \$102,000 has been recorded in the governmental activities financial statements because information available prior to issuance of the financial statements indicated that it was probable that a liability had been incurred at the date of the financial statements and the amount of loss can be reasonably estimated based on the Settlement. To comply with accounting principles generally accepted in the United States of America, the liability has been recorded in the governmental activities financial statements as follows: A) in the statement of net assets: 1) \$22,000 paid on November 29, 2006 as Special Item-Litigation Settlement, Portion Due or Payable in one year; and, 2) \$80,000 as Special Item-Litigation Settlement, Portion Due or Payable after one year; and, B) on the statement of activities: \$102,000 expense as a Special Item-Litigation Settlement. When the continuing litigation is concluded or the allocation issue is otherwise resolved, the value of the Real Property will be recognized with an appropriate adjustment to the litigation liability.

**County Of San Bernardino
Flood Control District
Budgetary Comparison Schedule - Governmental Funds
For The Fiscal Year Ending June 30, 2006**

SCHEDULE 1

Flood Control	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance July 1, 2005	\$ 62,107,042	\$ 43,467,681	\$ 55,720,030	\$ 12,252,349
Resources (inflows):				
Property Taxes	20,927,656	23,038,132	28,785,957	5,747,825
Use of Money and Property	2,748,500	2,403,000	2,353,892	(49,108)
Other Governmental Aid	32,906,286	55,478,798	34,013,808	(21,464,990)
Charges for Services	8,300	8,300	1,905,563	1,897,263
Other Revenue	713,965	718,950	1,272,327	553,377
Operating Transfers In	-	-	-	-
Amounts available for appropriation	119,411,749	125,114,861	124,051,577	(1,063,284)
Charges to appropriations (outflows)				
Salaries and Benefits	11,816,983	14,093,757	11,880,978	2,212,779
Services and Supplies	102,851,885	110,799,817	18,737,095	92,062,722
Other Charges	4,878,380	4,586,864	758,537	3,828,327
Capital Outlay	104,300	562,000	18,949,009	(18,387,009)
Operating Transfers Out	533,703	(4,904,427)	-	(4,904,427)
Reimbursements	(773,502)	(23,150)	-	(23,150)
Total charges to appropriations	119,411,749	125,114,861	50,325,619	74,789,242
Budgetary Fund Balance, June 30, 2006	\$ -	\$ -	\$ 73,725,958	\$ 73,725,958

County Of San Bernardino Flood Control District
Combining Balance Sheet
Special Revenue Funds
June 30, 2006

SCHEDULE 2

	TOTAL	ZONE 1	ZONE 2	ZONE 3	ZONE 4	ZONE 5	ZONE 6	ADMIN	TOTAL LADP
ASSETS									
Cash in treasury	\$ 75,947,053	\$ 41,456,646	\$ 5,826,469	\$ 4,325,455	\$ 14,843,025	\$ 1,266,704	\$ 1,615,465	\$ 1,515,214	\$ 5,098,075
Cash with fiscal agent	42,144	42,144	-	-	-	-	-	-	-
Restricted cash	173,830	173,830	-	-	-	-	-	-	-
Customer deposits	60,000	60,000	-	-	-	-	-	-	-
Subtotal cash and investments	76,223,027	41,732,620	5,826,469	4,325,455	14,843,025	1,266,704	1,615,465	1,515,214	5,098,075
Interest receivable	702,658	400,605	49,456	26,825	136,282	11,830	15,237	12,944	49,479
Taxes receivable	2,084,401	957,215	409,375	225,977	275,502	22,501	70,222	123,609	-
Due from other funds	4,231,683	-	-	170,145	4,000,000	-	-	11,956	49,582
Due from other governments	946,386	224,279	-	142,500	50,000	300,000	50,000	87,306	92,301
Total Assets	\$ 84,188,155	\$ 43,314,719	\$ 6,285,300	\$ 4,890,902	\$ 19,304,809	\$ 1,601,035	\$ 1,750,924	\$ 1,751,029	\$ 5,289,437
LIABILITIES AND FUND BALANCES									
Liabilities:									
Accounts payable	\$ 3,505,336	\$ 3,476,182	\$ 18,939	\$ 10,215	-	-	-	-	-
Salaries and benefits payable	845,485	267,176	169,401	87,548	87,460	12,301	31,593	104,591	85,415
Retentions payable	216,827	76,994	80,975	-	37,070	-	21,788	-	-
Due to other funds	4,306,712	32,555	3,219,942	1,003,418	17,456	105	19,660	2,088	11,488
Due to other governments	1,320,898	113,587	2,103	1,137,308	8,309	-	5,200	54,364	27
Deferred revenue	70,519	61,069	9,450	-	-	-	-	-	-
Customer deposits	196,420	66,420	130,000	-	-	-	-	-	-
Total liabilities	10,462,197	4,093,983	3,630,810	2,238,489	150,295	12,406	78,241	161,043	96,930
Fund Balances:									
Reserved for encumbrances	10,716,952	2,241,788	2,038,631	292,562	5,367,151	349,314	96,989	53,469	287,048
Unreserved	63,009,006	36,978,948	615,859	2,359,851	13,797,363	1,239,315	1,575,694	1,536,517	4,905,459
Total fund balances	73,725,958	39,220,736	2,654,490	2,652,413	19,154,514	1,588,629	1,672,683	1,589,986	5,192,507
Total liabilities and fund balances	\$ 84,188,155	\$ 43,314,719	\$ 6,285,300	\$ 4,890,902	\$ 19,304,809	\$ 1,601,035	\$ 1,750,924	\$ 1,751,029	\$ 5,289,437

County Of San Bernardino Flood Control District
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Special Revenue Funds
June 30, 2006

SCHEDULE 3

	TOTAL	ZONE 1	ZONE 2	ZONE 3	ZONE 4	ZONE 5	ZONE 6	ADMIN	TOTAL LADP
REVENUES									
Property taxes	\$ 26,293,950	\$ 12,304,641	\$ 4,944,565	\$ 2,771,042	\$ 3,475,349	\$ 269,990	\$ 969,240	\$ 1,559,123	\$ -
Other taxes	2,492,007	1,195,802	519,916	249,328	283,287	23,324	74,234	146,116	-
Governmental aid	34,013,808	24,864,654	2,624,770	2,572,348	1,410,730	4,805	2,384	157,170	2,376,947
Rents, concessions and royalties	1,905,563	845,535	863,523	96,235	91,408	-	8,862	-	-
Interest	2,353,892	1,323,541	148,768	90,115	479,316	42,915	54,355	41,637	173,245
Other revenues	1,053,767	350,238	70,923	372,244	(109,657)	(10,811)	(19,413)	(2,071)	402,314
Total revenues	68,112,987	40,884,411	9,172,465	6,151,312	5,630,433	330,223	1,089,662	1,901,975	2,952,506
EXPENDITURES									
Salaries and benefits	11,880,978	3,241,086	2,399,321	1,329,814	1,185,868	105,635	535,562	1,763,146	1,320,546
Services and supplies	18,737,095	8,458,034	3,345,546	2,635,894	1,233,799	92,986	818,479	986,856	1,165,501
Debt services:	-	-	-	-	-	-	-	-	-
Principal	681,315	681,315	-	-	-	-	-	-	-
Interest	77,222	45,294	28,830	-	-	-	-	3,098	-
Capital outlay	18,949,009	15,974,984	860,418	592,946	1,144,949	106,360	-	289,352	-
Total expenditures	50,325,619	28,400,713	6,634,115	4,558,654	3,564,616	304,981	1,354,041	3,022,452	2,486,047
Excess (deficiency) of revenues over expenditures	17,787,368	12,483,698	2,538,350	1,592,658	2,065,817	25,242	(264,379)	(1,120,477)	466,459
OTHER FINANCING SOURCES (USES)									
Operating transfers in	2,968,236	1,040,000	-	422,836	-	-	-	1,505,400	-
Operating transfers out	(2,968,236)	(1,843,100)	(749,536)	(59,400)	(227,100)	(19,500)	(69,600)	-	-
Sale of fixed assets	218,560	73,560	12,500	-	40,000	-	92,500	-	-
Total other financing sources (uses)	218,560	(729,540)	(737,036)	363,436	(187,100)	(19,500)	22,900	1,505,400	-
Excess of revenues and other financing sources over expenditures and other financing uses	18,005,928	11,754,158	1,801,314	1,956,094	1,878,717	5,742	(241,479)	384,923	466,459
Fund balance July 1, 2005	55,720,030	27,466,578	853,176	696,319	17,275,797	1,582,887	1,914,162	1,205,063	4,726,048
Fund balance June 30, 2006	\$ 73,725,958	\$ 39,220,736	\$ 2,654,490	\$ 2,652,413	\$ 19,154,514	\$ 1,588,629	\$ 1,672,683	\$ 1,589,986	\$ 5,192,507